annual report 09

special forces pension plan

who we are

The Special Forces Pension Plan (SFPP) was established in 1979 as a defined benefit pension plan for police officers, police chiefs, and deputy chiefs employed by local authorities in Alberta. The Plan is financed by member, employer, and Government of Alberta contributions as well as the investment earnings of the SFPP Fund.

The Special Forces Pension Board (the Board) oversees the management of SFPP, and is accountable to the Minister of Finance and Enterprise, members of the Plan (active, deferred, retired) and employers. The *Public Sector Pension Plans Act* sets out the main objectives of the Board.

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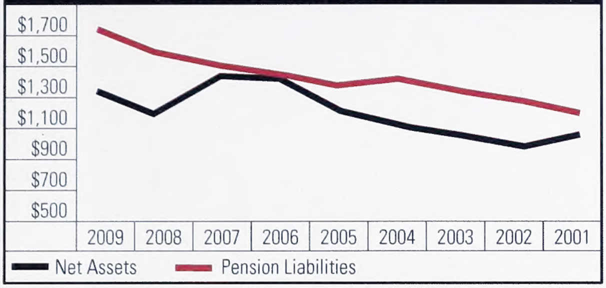
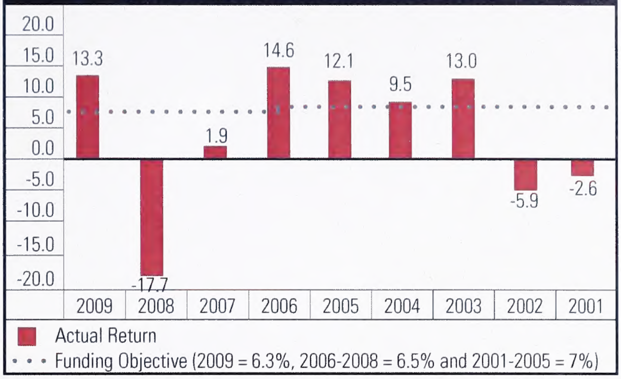
highlights

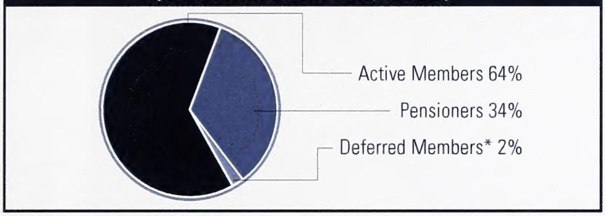
Net Assets vs. Pension Liabilities ($ millions) (as at December 31, 2009)



Rates of Return (%) (for the year ended December 31)



Membership Profile (as at December 31, 2009)



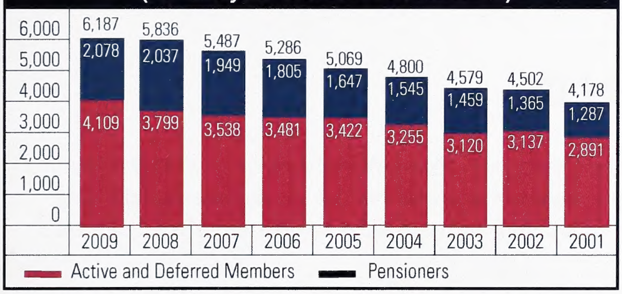
*Members who are no longer employed by a plan employer, have left contributions in the Plan and have yet to choose a pension option.

Summary of Net Assets Available for Benefits and Accrued Benefits (as at December 31, 2009)

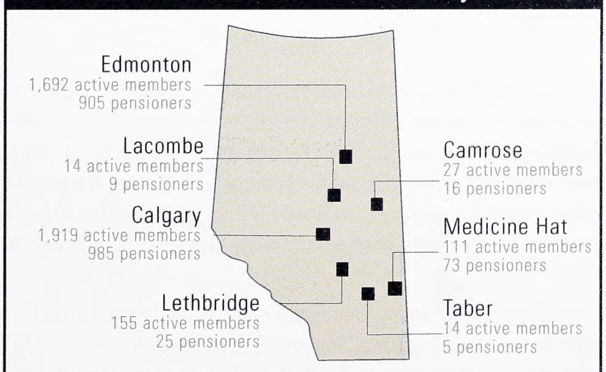
	2009	2008
	($ thousands)	
Net Assets Available for Benefits	1,347,681	1,203,004
Actuarial Value of Accrued Benefits		
Plan Fund	1,700,948	1,618,104
Indexing Fund	21,660	14,866
	1,722,608	1,632,970
Surplus (Deficiency)		
Plan Fund	(374,927)	(429,966)
Indexing Fund*	-	-
	(374,927)	(429,966)

*Cost of Living Adjustment (COLA) has been granted for pensionable service up to December 31, 2000. Please see www.sfpp.ca for more details.

Total Members and Pensioners (for the year ended December 31)

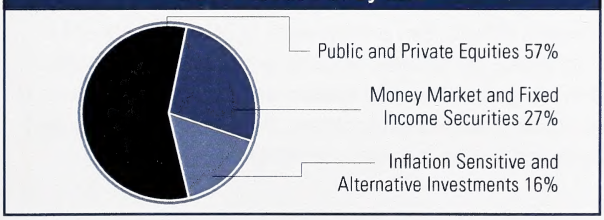


SFPP Active Members and Pensioners by Location*



*Does not include deferred members.

2009 Asset Policy Mix



2009 special forces pension board

Back row (left to right): **Roger Rosychuk (Employer Nominee/Chair), City of Edmonton; Aaron Brown (Crown Nominee), Dwayne Smith (Employee Nominee/Vice-chair), Lethbridge Regional Police Association; Ronald Ternes (Employee Nominee), Calgary Police Association**

Front row (left to right): **Garth Sherwin (Employer Nominee), City of Lethbridge; Denis Jubinville (Employee Nominee), Edmonton Police Association; Liz Doughty (Plan Board Manager), Alberta Pensions Services Corporation**

Missing from the photo: **David Watson (Employer Nominee), City of Calgary**

message from the board

The past year's market conditions provided significant challenges for many in the pension industry. While the markets saw better returns in 2009, the cumulative effect of investment losses during 2008 and the drop in investment returns over the last 10 years have created funding difficulties for all pension plans. The level of debate and discussion on the future of pensions has moved to mainstream media and all levels of government.

Managing the Plan's funded status is central to delivering the pension promise to SFPP members and ensuring plan assets (contributions plus investment returns) are sufficient. In 2008 the Plan experienced losses of 17 per cent. Although the Fund was worth $1.34 billion by the end of December 2009, up from its 2008 year-end value of $1.20 billion, this still did not provide the resources necessary to fund past losses. To offset these losses and ensure the pension promise could be met, the Board, based on a long-term view of the economy and the recommendation of its actuary, found it necessary to increase SFPP contribution rates by 3.44 per cent for both members and employers. This decision will reduce the risk of larger deficits and further contribution increases in the future. This was the first increase to the rates since 2003.

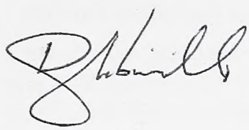
This increase was initially planned to take place January 1, 2010; however, the Board was approached by its stakeholders requesting alternatives to the increase. The Board in collaboration with its actuary and Alberta Pensions Services Corporation (APS), was able to defer the increase until July 1, 2010. The Board recognizes this increase is significant but it also recognizes its fiduciary duty of ensuring the defined benefit pension will be available for all of its members.

The Board is actively focused on the future. Each year, the Board adopts a strategic planning process, approving a three-year business plan. Among other things, the business plan covers opportunities and risks of the pension plan. A major objective for 2010 is the development of a funding policy, focusing on the Plan's balance sheet (the integration of assets and obligations) in making decisions about investment policy and contribution rates.

In addition to aspiring to excellence in governance, the Board is dedicated to evaluating and managing the risks of the Plan. A major 2009 focus was the development of an improved evaluation framework for investment management. The Board also reviewed the Cost-of-Living provision of the Plan.

The Board would like to acknowledge the departure of Garth Sherwin from the Board. Garth was appointed to the Board in 2006 and was Vice-chair of the Board for 2008/2009. The Board would also like to announce the appointments of Roger Rosychuk to the position of Board Chair, and Dwayne Smith to Vice-chair. Roger was appointed as a member of the Board in 2004, and Dwayne in 2008.

Our relationships with our service providers, APS, and Alberta Investment Management Corporation (AIMCo), are critical to the effective functioning of the Board. We would like to thank Monica Norminton, APS' CEO, for the Corporation's support in delivering valued plan member services, and administration services for the Board. Also, an important acknowledgement is extended to Leo de Bever, and other staff at AIMCo, for their work during the year. We look forward to continuing a cooperative and mutually beneficial relationship.



Denis Jubinville
2009 Chair, Special Forces Pension Plan

management of SFPP

The rules governing SFPP are found in the *Public Sector Pension Plans Act and Regulations*. The Minister of Alberta Finance and Enterprise (the Minister) holds the assets of the Plan in trust and is responsible in legislation for the administration of the Plan and the investment management of its assets.

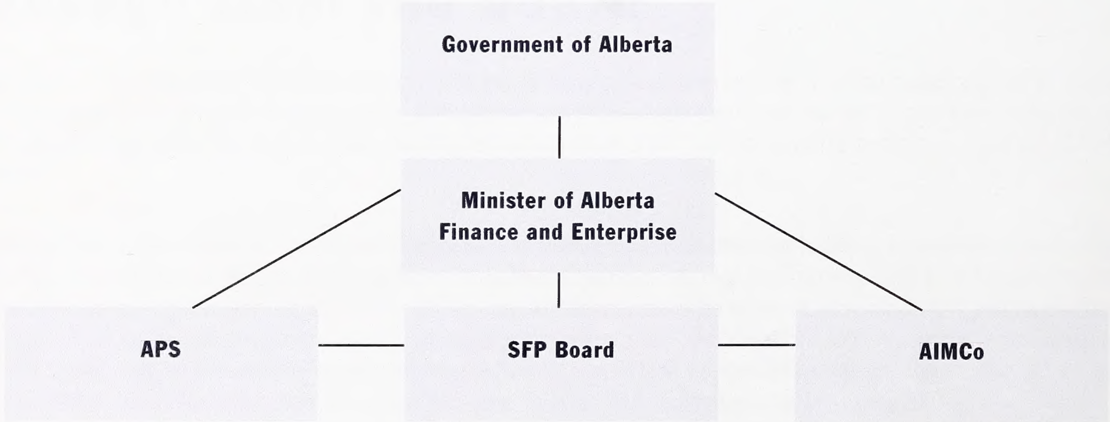
The Board has seven members (three employer nominees, three employee nominees and one person nominated by the Government of Alberta) that are appointed by the Lieutenant Governor in Council. The Board is charged with a number of legislated responsibilities, including arranging actuarial valuations, recommending plan rule changes, setting contribution rates based on the actuary's recommendations, setting contribution rates to the Indexing Fund for post-1991 Cost-of-Living Adjustments (COLA), providing general guidelines on plan administration, and setting an investment policy for the Plan's assets.

The Minister has delegated the administration of the Plan to APS, which is a provincial crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. The Corporation provides services to members, pensioners and employers and is responsible for the day-to-day administration of SFPP.

AIMCo, a provincial crown corporation, manages and invests the assets on behalf of the Minister, and the Board.

The Auditor General of Alberta conducts an independent audit of the financial statements of SFPP to ensure they are presented fairly in all material aspects and that they are in accordance with Canadian generally accepted accounting principles. The Auditor General's office provides a report to the Board identifying any significant findings arising from the audit and other matters they believe should be brought to the Board's attention.

The Board also seeks expert advice in order to make fully informed decisions. To ensure the appropriate and adequate discharge of its legislated and fiduciary duties, the Board requests its administrator to enter into contracts on its behalf for both actuarial and investment consulting services.



SFP Board discussion and analysis

The Discussion and Analysis (D&A) together with SFPP financial statements provide an overview of the funding of SFPP over 2009.

plan funding

An actuarial valuation of the Plan was conducted December 31, 2008 and the results were reviewed in 2009. As part of the valuation process, the Board undertakes a detailed and extensive review of the valuation assumptions to ensure that they reflect an accurate view of SFPP's expected experience and the future investment environment. Based on the advice of its actuary, the Board revised some assumptions as follows:

- Lower discount rate. In setting the annual effective discount rate to estimate the present value of future payments (liabilities), long bond rates prevailing at the time of an actuarial valuation must be considered. These rates have lowered considerably from 6 per cent 10 years ago, to around 4 per cent today. A lower discount rate means a higher value of liabilities and therefore a higher current service cost.

- Changing demographics. Members of the Plan are living longer and this means the Plan may have to pay benefits for a longer period of time – this could mean the average pension term paid may be longer than the average working career. To better reflect future expectations of mortality improvement for younger plan members, the Board has moved to a generational mortality table. This change drives pension costs up. Higher than expected pay increases have also changed the salary assumption for the Plan, again, resulting in an increase of the liabilities of the Plan.

These changes, along with the requirement to amortize a portion of investment losses from the severe market downturn in 2008 over 2009, have resulted in increased contribution rates for members and employers. The actuarial valuation showed the combined contribution rate requirement for members and employers is 28 per cent (from 21.12 per cent) of all salaries. The Government of Alberta continues to pay 1.25 per cent towards the pre-1992 unfunded liability.

governance

Good governance practices allow the Board to fulfill its mandate and roles as determined by the Minister of Finance and Enterprise. The Board is preparing for the implementation of the *Alberta Public Agencies Governance Act*. The Act aims to promote transparency, accountability, and good governance for the province's nearly 250 agencies, boards and commissions. Board policies have been reviewed in conjunction with Alberta Finance and Enterprise to ensure they meet or exceed the minimum standards set out by the Act and other governance standards. The Board's policy review is ongoing, and work will continue into 2010. The Board looks forward to posting its governance documents on the website at www.sfpp.ca in 2010.

funding risks looking forward

The Plan, through the valuation process, smooths investment gains and losses in an effort to mitigate the annual impact on the funding status and to moderate short-term adjustments to contribution rates. As a result, it is important to understand the Plan must recognize large investment losses from 2008 over the next two years.

In addition to dealing with past volatility, the Plan must face several risks on a go forward basis. These risks include:

1. Potential for continued low interest rates. If this continues, it will mean the Plan must continue to lower the discount rate putting upward pressure on contribution rates and/or continue to look for riskier asset classes (like public equity) to deliver higher returns.

2. Low interest rates and a high exposure to public equity. This leaves the Plan exposed to equity market volatility and the risk that equity markets (as in the previous decade) do not deliver, in the long-term, the return premium needed to fund the Plan.

3. Improving mortality rates. While increased longevity is desirable, it does have an impact on the Plan's funding. This is an ongoing challenge that must be dealt with within the cost structure of the Plan particularly with a full pension payable after only 25 years of service.

4. Maturity of the Plan. SFPP is a mature plan, which is reflected in the proportion of liabilities related to inactive members (57 per cent). The result of this is a declining proportion of the Plan's membership carries an increased responsibility for meeting the Plan's funding requirements. The low ratio of contributing members to retirees makes it challenging to overcome funding shortfalls with contribution increases alone.

Management of these risks will require:

1. Continual review of investment policy, and in particular the identification of opportunities, to diversify away from public equities while still generating sufficient return to match the growth in liabilities.

2. The development of a funding policy that will position the Plan to better respond to unanticipated changes in funding levels.

3. Regular and ongoing monitoring and management of valuations and valuation assumptions. This will ensure continued attention to the Plan's obligations and adjustment of contribution rates to ensure the Plan is on a sustainable foundation.

4. Continued awareness and preparation for the right opportunity to initiate discussion or respond to initiatives on plan design and funding with stakeholders and the Government.

5. Close oversight of the investment implementation. This goes beyond monitoring performance but also actively seeking to improve the alignment between the funding objectives of the Plan and AIMCo, through which the Government has delegated the investment of the Fund. This would include ongoing dialogue regarding cost structure, and the use of investment strategies and investment parameters.

While the long-term expected rate of return is based on our best estimate consistent with the Fund's policy asset mix, there can be significant divergence from this estimate over shorter periods of time. The Plan experienced a significant deviation from the long-term expected rate of return over the past few years.

actuarial valuations – for funding purposes[1]

The Plan's shortage is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status.

The discount rate for the December 2008 valuation was based on the long-term expected return of the Fund taking into consideration the long-term target policy asset mix. The discount rate was set at 6.3 per cent, a decrease of 0.2 per cent from the previous valuation as at December 31, 2006. The long-term inflation rate assumption was set at 2.3 per cent, down from 2.5 per cent in the prior valuation. All other valuation assumptions were the same as those used in the actuarial valuation as at December 31, 2006 except the mortality table was adjusted to reflect longer life expectancy of younger members. The salary assumption was increased to reflect higher salaries. The net impact of the assumption changes is an increase in liabilities of $99.4 million and 1.80 per cent of pay in the total current service cost.

[1] For the purposes of the financial statements contained in this annual report, a best-estimate actuarial valuation is used which has a marked-to-market approach that values plan liabilities and assets based on current market values.

The following table outlines the results of the funding actuarial valuation as at December 31, 2008.

Special Forces Pension Plan	
At December 31, 2008	($ millions)
Funding Liabilities	1,777.6
Funding Value of Assets	1,321.6
Funding Deficiency	(456)

The actuarial valuation showed the combined contribution rate requirement by employers and employees is 28 per cent of all pensionable salaries (1.25 per cent is contributed by the Government of Alberta for a total of 29.25 per cent). Contribution rate increases are mostly attributed to the decrease in the discount rate and the requirement to amortize some of the investment losses from the severe market downturn in 2008 over the next 15 year period. The last contribution rate increase was in 2003.

The table below shows the January 1, 2009 contribution rates and the revised contribution rates that will come into effect July 1, 2010 based on the results of the December 31, 2008 actuarial valuation.

Contribution Rates (%)		
	January 1, 2009	**July 1, 2010**
Members	10.01	13.45
Employers	11.11	14.55
Government of Alberta	1.25	1.25
Total	22.37	29.25

Under the *Public Sector Pension Plans Act*, an actuarial valuation is required on no less than a triennial basis. As the most recent valuation for SFPP was conducted as at December 31, 2008, the next valuation is required no later than December 31, 2011.

administration report

APS proudly serves SFPP and provides responsive and focused service to members, pensioners, employers and plan governors.

APS administers SFPP under the Pension Services Agreement with the Minister of Finance and Enterprise. Administrative activities include:

- the collection of member data and contributions;
- calculation and payment of pension benefits;
- support to the Board; and
- communication of pension information to members, pensioners and employers.

The 2009 results in these areas are as follows:

active membership and contributions

Active membership in SFPP increased by 7.7 per cent in 2009 rising to 3,979 at December 31, 2009 from 3,693 at the end of 2008. As a result of increased membership and salaries, total contributions received from employers and employees, the Government of Alberta* and transfers from other plans grew by 6.5 per cent to $66 million in 2009 from $62 million in 2008.

Contributions ($ millions)

SFPP Membership	2009	2008
Active Members	3,979	3,693
Deferred Members	130	106
Pensioners	2,078	2,037
Total	6,187	5,836

* Relates to additional contributions toward the unfunded liability for service prior to December 31, 1991

pensioners and benefit payments

The number of former employees and their pension partners receiving a pension from SFPP increased by 2 per cent, rising to 2,078 in 2009 from 2,037 in 2008. During the year, the total payments of benefits to pensioners rose by 5.9 per cent to $76.8 million in 2009 from $72.5 million in 2008.

SFPP Pensioner Profile

	2009	2008
Number of new pensioners	44	103
Average service (years)	29	28.25
Average age (at retirement)	52.02	52.41
Average monthly pension	$4,004.40	$3,867.98

Monthly Payment Distribution As at December 31, 2009

Dollar Value ($) Per Month	Member Pensions	Pension Partner Pensions	Total
1 to 999	24	1	25
1,000 to 1,999	278	20	298
2,000 to 2,999	600	12	612
3,000 to 3,999	881	1	882
4,000 and over	261	-	261
Total	2044	34	2078

- The average new monthly pension paid in 2009 was $4,004, compared with $3,868 in 2008.
- The most popular pension choice among new retirees with a spouse continues to be Normal Form. Normal Form is guaranteed for the members' lifetime, for the pension partners' lifetime at a reduced rate, or for five years, whichever is longer.

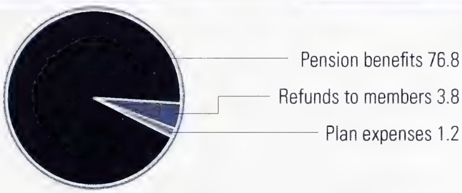
cost-of-living adjustment (COLA) to pensions

The COLA granted to pensioners who retired prior to January 1, 2009 was 0.06 per cent. For those who retired during 2009, this COLA increase has been prorated depending on the month of retirement. SFPP COLA applies only to service accrued before January 1, 2001. For post-2000 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund.

terminated and deferred members

Termination benefits amounting to $3.8 million (2008: $4.2 million) were paid during the year to or on behalf of former members of SFPP.

Payments ($ millions)



plan expenses

APS strives to provide services in a cost-conscious and effective manner. SFPP per member costs are based on a cost-sharing formula, which allocates operating costs among the pension plans served by APS according to a formula determined by the Minister of Finance and Enterprise.

SFPP's share of APS costs were approximately $1.2 million in 2009, or $199 per SFPP member, based on average membership.

SFPP Expenses ($ thousands)

	2009 Actual	2008 Actual
APS Corporate Operating Costs	897	747
Board and Plan-specific Costs	300	273
Total Plan Operating Costs	1,197	1,020

plan communications

APS provided the Board, members and employers a number of tools in 2009 that made it easier for them to understand, manage and access information about their pensions.

SFPP members were provided with annual report highlights and member annual statements, given the opportunity to attend seminars, and members new to the Plan were sent a welcome package including a welcome letter, forms and plan details.

SFPP employers were sent the monthly electronic newsletter, *Pension e-news*, which continues to give them up-to-date and easy access to pension information. *Pension e-guide*, the electronic manual for employers, continues to be a source of online support for employers' administrative issues. A printed copy of the annual report is provided to SFPP employers, police associations and the Minister of Finance and Enterprise. All other interested parties can access the report on the SFPP web site. Annual Report Highlights are sent to all members.

initiatives in 2009

In 2009, APS embarked on the following initiatives to enhance service to our valued clients:

- **Member Services** - APS believes members identify with their pension plan from sign up to sign off. Last summer, a phone line dedicated to SFPP was introduced to the Member Services Centre, making it easier for members to connect with SFPP pension benefits specialists.

- **mypensionplan Enhancements** - APS made the pension experience easier for **mypensionplan** users in 2009 by increasing access to plain language definitions of complex pension terms. There were 696 members registered in **mypensionplan** as of December 31, 2009.

- **Employer Services** - To improve compliance, employers received focused training on year-end processes, supported by online tutorials.

- **Disaster Recovery** - If an emergency or disaster strikes, clients must have confidence they will continue to have access to critical pension services. Several successful table-top disaster recovery and business continuity exercises were held throughout the year to ensure APS is prepared to deliver services despite unforeseen incidents.

- **New Name and New Location** - Effective January 1, 2009, Alberta Pensions Administration Corporation (APA) changed its name to Alberta Pensions Services Corporation (APS) to emphasize the service side of the business. The name change was publicly launched in 2009 to coincide with a move to southwest Edmonton. The new building supports free designated parking for clients, more space for one-on-one consultations with pension representatives, and multi-functional boardrooms. Over the long-term, leasing costs will be lower than if APS had maintained its downtown office.

- ***Employment Pensions Plans Act (EPPA)* Regulations** - Some pension plan regulations changed effective July 1, 2009 to align with the *EPPA*. Regulations now allow a pension partner to waive his or her right to the death benefit of a working pension plan member. Members who leave employment and qualify as non-residents of Canada can now apply to be paid the commuted value of their pension. APS put in place the processes and communications materials needed to administer these changed regulations. Additional information is available on the SFPP website: www.sfpp.ca.

the year ahead

In 2010, APS plans to:

- introduce newly designed member annual statements containing a more clear and concise snapshot of a member's pension benefit;
- provide more self-service through **mypensionplan** by offering members the opportunity to go green with their annual statements. Members who sign up for this service will receive e-mail notification when their statement is available online and will not receive a paper copy in the mail. Members will also have the option of updating their beneficiary information online;
- perform a thorough review of the leave without pay purchase process and products;
- offer members and employers online registration for workshops and consultations; and
- begin work on redesigning the Plan's website.

For further information on the Plan or to access the **mypensionplan** site, please refer to the SFPP website at www.sfpp.ca.

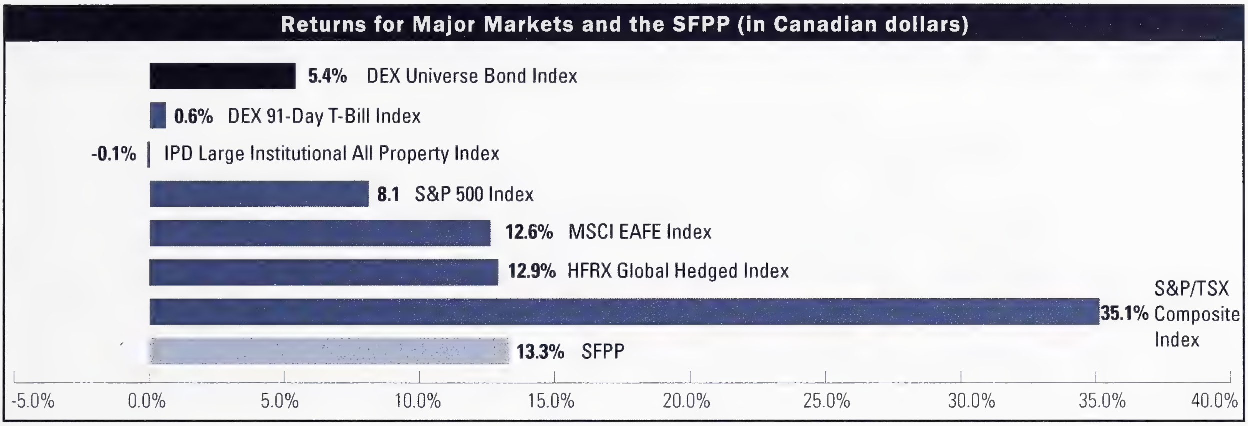
investment report

2009 year in review

The Plan recorded a gain of 13.3 per cent (or $160 million) in 2009 compared to last year's investment loss of 17.7 per cent (or $260 million) in 2008 and a gain of 1.9 per cent (or $28 million) in 2007.

2009 marked a significant rebound in world equity markets after last year's severe decline brought on by the global recession, credit crisis and decline in commodity prices. The recovery in the investment markets was driven by an infusion of financial liquidity from governments around the world and a reduction in the extreme risk adverse behaviour of investors. Oil prices also began to stabilize and recover from last year's roller coaster increase and decline.

The following chart summarizes the market returns from various indexes around the world and the return of SFPP.



The Canadian stock market rebounded strongly in 2009. The Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 35.1 per cent in 2009; a complete turn around from 2008's decrease of 33 per cent.

The value of the Plan's non-Canadian investment portfolio is exposed to foreign currency risk. For example, for every one cent change in the U.S. dollar against the Canadian dollar the fair value of the Plan's U.S. equity portfolio, totalling $228 million, changes by approximately $2.2 million. When the Canadian dollar strengthens against a foreign currency the fair value of the Plan's investments in that currency decline when translated into Canadian dollars. At December 31, 2009, one U.S. dollar purchased $1.05 Canadian compared to $1.22 Canadian at the beginning of the year. As a result of the stronger Canadian dollar, U.S. dollar investments decreased in value over the year when translated into Canadian dollars resulting in lower foreign equity returns.

The S&P 500 Index, which tracks the performance of the top 500 American companies, increased by 26.5 per cent in U.S. dollars in 2009, a substantial improvement from last year's loss of 37 per cent. When translated into Canadian dollars, the Index gained 8.1 per cent in 2009 compared to a loss 21.9 per cent in 2008.

Outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, (MSCI EAFE) Index, measures the performance of approximately 1,000 companies in 21 countries around the world. In 2009, the Index gained 12.6 per cent in Canadian dollars compared to a loss of 29.8 per cent in 2008.

The bond market represented by the DEX Universe Bond Index posted a gain of 5.4 per cent in 2009 compared to an increase of 6.4 per cent in 2008.

The Canadian real estate market, represented by the IPD Large Institutional All Property Index lost 0.1 per cent in 2009 compared to a gain of 3.1 per cent in 2008.

statement of investment policies and goals (SIP&G)

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's *SIP&G*. The *SIP&G* is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

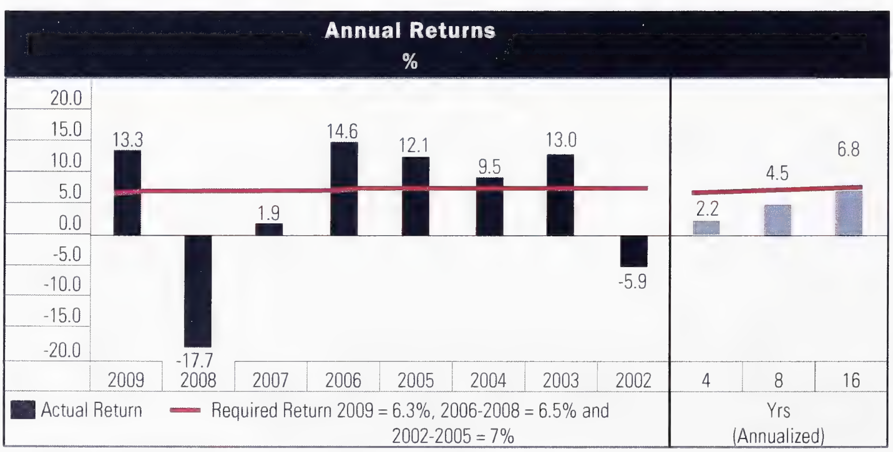
investment management services

Alberta Investment Management Corporation (AIMCo) is a provincial corporation of Alberta Finance and Enterprise. It manages and invests the assets of the Plan on behalf of the Minister and the Board. AIMCo invests SFPP's assets for the benefit of its members, subject to legislation and the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

long-term investment objective (funding)

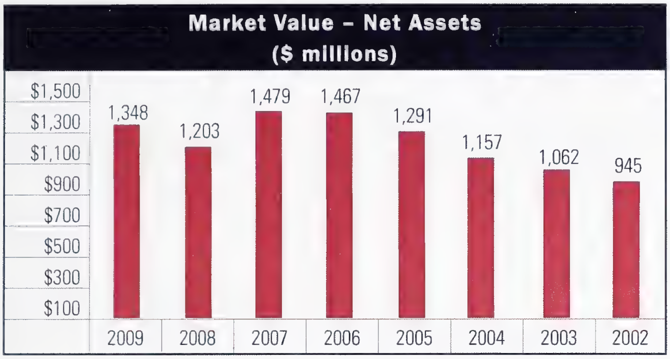
The required long-term average annual return from the Plan's investments is 6.3 per cent. This includes an expectation of earning 4 per cent above the forecast annual rate of inflation currently assumed at 2.3 per cent.

The chart below compares SFPP's overall investment returns over one year, four years and eight years against the required long-term investment return of 6.3 per cent. In five of the last eight years, the Plan's annual return exceeded the required long-term expected investment return. Over eight years, the Plan's annualized return of 4.5 per cent was less than the long-term expected return of 6.3 per cent by 1.8 per cent. Over sixteen years, the Plan's annualized return of 6.8 per cent was greater than the Plan's expected long-term return of 6.3 per cent by 0.5 per cent.



fair value of the plan's net assets

At December 31, 2009, the fair value of the Plan's net assets increased to $1.348 billion, up $145 million, from $1.203 billion and the end of the previous year after taking into account the investment income of $160 million and the excess pension benefits paid over contributions received from employees and employers of $15 million.



board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the *SIP&G* annually, the Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

The Board monitors the services provided to the Plan by AIMCo. Services provided and charges for those services including performance standards are set out in the *Investment Management Agreement* between AIMCo and the Board.

The Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The Board then reviews the Fund objectives, taking into consideration the studies' recommendations, and will make any appropriate changes to the SIP&G.

asset mix

For 2009, the asset mix for public and private equities is 57 per cent, money market and fixed income securities 27 per cent and inflation sensitive and alternative investments 16 per cent.

The Plan's inflation sensitive and alternative investment portfolio includes real return bonds, real estate, private income and timberland investments. They are a relatively illiquid asset classes, and require time to build and exit investments. Both private income and timberland investments are structured to provide high current income. Global private equity investments include primarily merchant banking investments. The merchant banking sector is involved in transactions such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. Private income investments include infrastructure projects that are structured to provide high current income. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power/energy (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water and natural gas network). The timberland investment represents an interest in a limited partnership that holds forestry land and land held for better use in the Province of British Columbia, and smaller investments outside of Canada.

The table below shows the policy asset mix for the Plan compared to the actual policy asset mix for 2009 and the previous year.

Asset Mix	Long-term Policy Asset Mix		Actual Asset Mix	
	2009	2008	2009	2008
	%	%	%	%
Money Market and Fixed Income				
Short-term Investments	1.0	1.0	1.1	1.3
Bonds and Mortgages	12.0	12.0	12.1	12.2
Long Government Bonds	14.0	14.0	13.8	15.8
	27.0	**27.0**	**27.0**	**29.3**
Equities				
Public Equities				
Canadian	18.0	17.0	19.2	16.1
Global	37.0	35.0	37.2	37.4
Private Equities	2.0	5.0	1.8	1.8
	57.0	**57.0**	**58.2**	**55.3**
Inflation Sensitive and Alternative Investments				
Real Estate	7.0	7.0	5.4	9.5
Real Return Bonds	5.0	2.0	5.5	2.3
Private Income	3.5	5.0	3.3	3.0
Timberland	0.5	2.0	0.6	0.6
	16.0	**16.0**	**14.8**	**15.4**
Grand Total	**100.0**	**100.0**	**100.0**	**100.0**

sfpp investment results in relation to the benchmarks

To evaluate performance and measure the value added by the investment managers from their active investment decisions, such as security selection, the actual investment results are compared to the investment policy benchmark. The benchmark return represents what could reasonably be earned without active management if invested in the market indices in proportion to the policy asset mix approved by the Board. Investment managers strive to earn more than market returns by over or under weighting specific investments in relation to the indices. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices: DEX 91-Day T-Bill Index, DEX Universe Bond Index, DEX Long Term Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index, MSCI All Country World Index, IPD Large Institutional All Property Index.

The performance of AIMCo is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns.

In 2009, the Plan's overall gain of 13.3 per cent from its investments was below the benchmark gain of 13.5 per cent by 0.2 per cent. Over four years, the Plan's investments gained 2.2 per cent per year, 0.6 per cent less than the policy benchmark return of 2.8 per cent. Over an eight-year period, the Plan returned 4.5 per cent per year, meeting the policy benchmark return of 4.5 per cent. Over sixteen years, the Plan earned 6.8 per cent per year on an annualized basis, below the policy benchmark by 0.1 per cent.

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

	Annual Returns				Annualized Returns				
	2009	2008	2007	2006	1yr	2yr	3yr	4yr	8yr
	%	%	%	%	%	%	%	%	%
Total Fund	**13.3**	**(17.7)**	**1.9**	**14.6**	**13.3**	**(3.4)**	**(1.7)**	**2.2**	**4.5**
Policy Return (1)	13.5	(14.3)	1.1	13.8	13.5	(1.4)	(0.6)	2.8	4.5
Consumer Price Index (CPI) (2)	1.0	2.0	2.4	1.4	1.0	1.5	1.8	1.7	2.1
Short-term Fixed Income	**1.6**	**4.1**	**8.2**	**3.9**	**1.6**	**2.9**	**4.6**	**4.4**	**3.7**
DEX 91-Day T-Bill Index	0.6	3.3	4.4	4.0	0.6	2.0	2.8	3.1	2.8
Total Long Term Fixed Income	**6.5**	**(0.2)**	**2.2**	**4.8**	**6.5**	**3.1**	**2.8**	**3.3**	**n/a**
Long-term Benchmark Index (3)	3.3	6.6	3.9	4.1	3.3	5.0	4.6	4.5	n/a
Canadian Equities	**36.8**	**(34.9)**	**9.9**	**18.3**	**36.8**	**(5.6)**	**(0.7)**	**3.7**	**8.2**
S&P/TSX Composite Index (4)	36.8	(34.5)	8.9	17.3	36.8	(5.4)	(0.8)	3.4	7.8
Foreign Equities	**15.3**	**(30.6)**	**(6.5)**	**21.3**	**15.3**	**(10.6)**	**(9.2)**	**(2.4)**	**(0.8)**
MSCI All Country World (5)	11.9	(25.6)	(8.3)	21.1	11.9	(8.8)	(8.6)	(1.9)	(0.8)
Global Developed Equity (6)	**14.7**	**(30.3)**	**(6.9)**	**(21.3)**	**14.7**	**(10.6)**	**(9.4)**	**(2.6)**	**n/a**
Global Developed Equity Index (7)	11.9	(25.6)	(8.3)	21.1	11.9	(8.8)	(8.6)	(1.9)	n/a
Emerging Markets	**55.8**	**(45.6)**	**15.1**	**31.0**	**55.8**	**(7.9)**	**(0.8)**	**6.3**	**n/a**
Benchmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Private Equities	**(8.0)**	**(7.2)**	**n/a**	**n/a**	**(8.0)**	**(7.6)**	**n/a**	**n/a**	**n/a**
MSCI All Country World (8)	15.9	10.0	n/a	n/a	15.9	12.9	n/a	n/a	n/a
Inflation Sensitive	**0.3**	**4.8**	**17.6**	**15.6**	**0.3**	**2.5**	**7.3**	**9.4**	**n/a**
Benchmark Index	6.2	3.8	11.7	12.4	6.2	5.0	7.2	8.4	n/a
Real Estate	**(7.3)**	**5.4**	**20.8**	**21.3**	**(7.3)**	**(1.2)**	**5.7**	**9.4**	**11.6**
IPD Large Institutional All Property Index	(0.1)	3.1	16.0	18.6	(0.1)	1.5	6.1	9.1	10.6
Real Return Bonds	**13.4**	**1.0**	**1.7**	**(3.0)**	**13.4**	**7.0**	**5.2**	**3.1**	**3.5**
DEX Real Return Bond Index	14.5	0.4	1.6	(2.9)	14.5	7.2	5.3	3.2	9.1
Private Income	**2.0**	**10.0**	**12.4**	**18.1**	**2.0**	**5.9**	**8.1**	**10.5**	**n/a**
DEX Real Return Bond Index (9)	11.7	8.0	8.4	7.4	11.7	9.8	9.4	8.9	n/a
Timberland Investments	**(8.8)**	**(8.7)**	**59.0**	**4.3**	**(8.8)**	**(8.8)**	**9.8**	**9.8**	**n/a**
DEX Real Return Bond Index (10)	10.6	6.0	6.4	5.4	10.6	8.3	7.7	7.1	n/a

(1) The policy benchmark is a product of the weighted average policy sector weights and sector returns.
(2) CPI is reported on a real-time basis.
(3) Combined DEX Universe Bond Index and DEX Long All Government Bond Index.
(4) Prior to 2009 the combined S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.
(5) Prior to 2009 the combined S&P 500 Index, MSCI EAFE Index and Russell 2500 Index.
(6) Global developed equities is the combined portfolio return of U.S. equities, EAFE equities and the Global Equity Master Pool.
(7) Prior to July 1, 2009, the benchmark was the combined S&P 500 Index, Russell 2500 Index and the MSCI EAFE Index.
(8) Effective July 1, 2009, the benchmark is the combined MSCI All Country World Index and CPI plus 8 per cent. Prior to July 1, 2009 the benchmark was the CPI plus 8 per cent.
(9) Effective July 1, 2009, the benchmark is the combined DEX Real Return Bond Index and the MSCI All Country World Index. Prior to July 1, 2009 the benchmark was the CPI plus 6 per cent.
(10) Effective July 1, 2009, the benchmark is the combined DEX Real Return Bond Index and the MSCI All Country World Index. Prior to July 1, 2009 the benchmark was the CPI plus 4 per cent.

money market and fixed income investments

The DEX Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. In 2009 the combined DEX Universe and Long-term Government Bond indices increased by 3.3 per cent while the short-term DEX 91-Day T-Bill Index increased by 0.6 per cent.

The Plan's actual gain in 2009 from long-term fixed income securities was 6.5 per cent, 3.2 per cent more than the combined long-term fixed income benchmark of 3.3 per cent. The actual return from the Plan's cash and short-term investments was 1.6 per cent in 2009, compared to the benchmark, the DEX 91-Day T-Bill Index, return of 0.6 per cent. Over four years, the actual return from long-term fixed income securities was 3.3 per cent or 1.2 per cent less than the benchmark return of 4.5 per cent.

Long-term Fixed Income	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	6.5	3.3	3.2
Four Years (annualized)	3.3	4.5	(1.2)

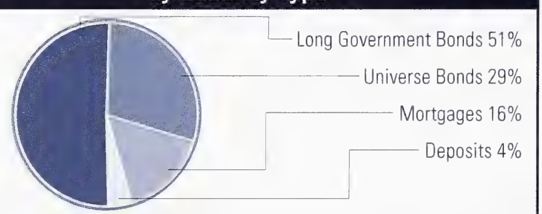
* Combined DEX Universe Bond Index and Long-term Government Bond Index.

Short-term Fixed Income	Actual Return %	Benchmark Index* %	Net Value Added from Active Management %
One Year	1.6	0.6	1.0
Four Years (annualized)	4.4	3.1	1.3

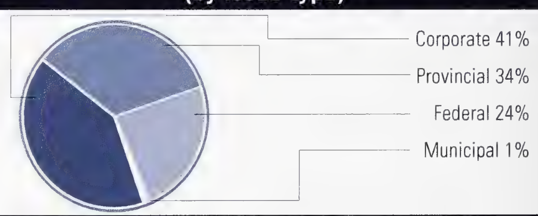
* DEX 91-Day T-Bill Index

At December 31, 2009, investments in bonds, mortgages and cash totalled 27 per cent or $363 million, up from 29.3 per cent or $351 million the previous year.

Summary of Fixed Income Holdings by Security Type



Summary of Fixed Income Holdings (by issue type)



canadian public equity investments

At December 31, 2009, Canadian public equities represented 19.2 per cent of SFPP's total investments or $258 million, up from 16.1 per cent or $193 million at the end of the previous year. Most of the Canadian equity portfolio is held in the Canadian Equity Master Pool which includes actively managed large cap and small cap strategies and passively managed structured equity strategies based on the benchmark S&P/TSX Composite Total Return Index.

Canadian Equity Holdings by Industry Sector	2009 %	2008 %
Financials	29	27
Energy	24	27
Materials	16	16
Industrials	7	8
Consumer discretionary	7	7
Telecommunications	5	6
Consumer staples	5	3
Information technology	3	3
Utilities	3	2
Health Care	1	1
	100	100

The actual gain from Canadian equity investments over the year was 36.8 per cent, the same as the benchmark gain of 36.8 per cent.

Canadian Equities	Actual Return %	Benchmark Index* %	Net Value Added from Active Management %
One Year	36.8	36.8	0.0
Four Years (annualized)	3.7	3.4	0.3

* S&P/TSX Composite Index. Prior to July 1, 2009, the benchmark combined S&P/TSX Capped Composite Index and BMO Small Cap Index.

foreign equities

The foreign equity portfolio includes investments in the U.S. and Europe, Australasia and the Far East (EAFE), Emerging Markets and Canada.

At December 31, 2009, foreign equities comprised 37.2 per cent of the Plan's total investments or $500 million compared to 37.4 per cent or $448 million the previous year. Approximately 85 per cent of foreign equities are held in the Global Equity Master Pool, 7 per cent in the Portable Alpha U.S. Pool, 7 per cent in the Emerging Markets Equity Pool and 1 per cent in the overlay strategy. The foreign equity portfolio includes passively managed structured equity products, actively managed small mid cap equities and the value added hedge fund strategy.

Summary of Global Equity Holdings by Geographic Region

Global Public Equities by Industry Sector

	2009 %	2008 %
Financials	21	17
Industrials	15	11
Consumer discretionary	11	9
Information technology	11	11
Consumer staples	10	11
Energy	10	11
Health Care	9	13
Materials	6	5
Telecommunications	4	7
Utilities	3	5
	100	100

The Plan's actual gain from foreign equity investments in 2009 was 15.3 per cent, 3.4 per cent more than the benchmark gain of 11.9 per cent in Canadian dollars.

Foreign Equities	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	15.3	11.9	3.4
Four Years (annualized)	(2.4)	(1.9)	(0.5)

*MSCI All Country World Index. Prior to July 1, 2009, the combined benchmark of the S&P 500, Russell 2500 and MSCI EAFE Indices.

Global Developed Equities	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	14.7	11.9	2.8
Four Years (annualized)	(2.5)	(1.9)	(0.6)

*MSCI All Country World Index. Prior to July 1, 2009, the combined benchmark of the S&P 500, Russell 2500 and MSCI EAFE Indices.

Emerging Markets	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	55.8	n/a	n/a
Four Years (annualized)	n/a	n/a	n/a

*Effective July 1, 2009, the MSCI All Country World Index.

global private equities

At December 31, 2009, the global private equity investment comprised 1.8 per cent of the Plan's total investment portfolio or $25 million compared to 1.8 per cent or $22 million the previous year. The portfolio includes investments in institutionally sponsored international private equity pools managed by experienced external investment advisors with proven track records. Private equities lost 8 per cent in 2009, 23.9 per cent less than the benchmark gain of 15.9 per cent.

inflation sensitive

At December 31, 2009, the Plan's inflation sensitive portfolio comprised 14.8 per cent of total investments or $199 million compared to 15.4 per cent or $185 million the previous year. The inflation sensitive portfolio consists of real estate, real return bonds, private income and timberland investments. Real estate, private income and timberland investments are relatively illiquid asset classes and require time to build and exit the investment.

Overall, the actual gain from inflation sensitive investments during the year was 0.3 per cent, 5.9 per cent less than the benchmark return of 6.2 per cent.

Private Equities	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	(8.0)	15.9	(23.9)
Four Years (annualized)	n/a	n/a	n/a

*MSCI All Country World Index. Prior to July 1, 2009, the benchmark was the CPI plus 8 per cent.

Inflation Sensitive	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	0.3	6.2	(5.9)
Four Years (annualized)	9.4	8.4	1.0

*Combined benchmarks of real estate, real return bonds, private income and timberland investments.

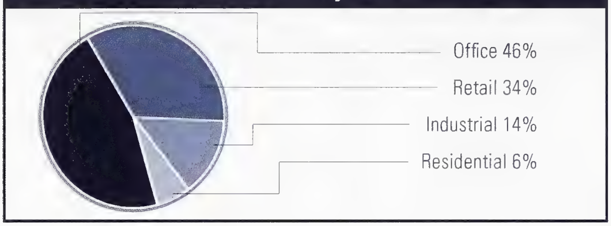
real estate

At December 31, 2009, the Plan's Canadian real estate portfolio comprised 5.4 per cent or $73 million of the Plan's total investment portfolio down from 9.5 per cent or $114 million the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton and Vancouver. The focus is on quality properties, featuring strong locations and tenants.

Top Five Real Estate Holdings (as at December 31, 2009)

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

Real Estate by Sector



Real Estate by Province

The Plan's actual loss from real estate investments in 2009 was 7.3 per cent, 7.2 per cent more than the benchmark loss of 0.1 per cent.

Real Estate	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	(7.3)	(0.1)	(7.2)
Four Years (annualized)	9.4	9.1	0.3

*IPD Large Institutional All Property Index

real return bonds

At December 31, 2009 real return bonds comprised $73 million or 5.5 per cent of the Plan's total investment portfolio compared to $28 million or 2.3 per cent the previous year. Real return bonds are inflation-linked fixed income instruments designed to generate a specified real rate of return (return achieved after adjustments for inflation).

In 2009, real rate of return bonds gained 13.4 per cent, 1.1 per cent below the policy benchmark gain of 14.5 per cent.

Real Return Bonds	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	13.4	14.5	(1.1)
Four Years (annualized)	3.1	3.2	(0.1)

*DEX Real Return Bond Index.

private income

At December 31, 2009, private income investments comprised 3.3 per cent of the Plan's total investment portfolio or $44 million compared to 3 per cent or $36 million the previous year. Private income investments include infrastructure related projects that provide attractive returns plus inflation sensitivity with a long investment horizon. In 2009, private income investments returned 2 per cent, 9.7 per cent less than the benchmark of 11.7 per cent.

Private Income	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	2.0	11.7	(9.7)
Four Years (annualized)	10.5	8.9	1.6

*Combined DEX Real Return Bond Index and the MSCI All Country World Index. Prior to July 1, 2009, the CPI plus 6 per cent.

timberland

At December 31, 2009, timberland investments comprised 0.6 per cent of the Plan's total investment portfolio or $8 million compared to 0.6 per cent or $8 million the previous year. Timberland includes investments in forestry land in Canada and globally. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. In 2009, timberland investments lost 8.8 per cent, 19.4 per cent less than the benchmark gain of 10.6 per cent.

Timberland Investments	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	(8.8)	10.6	(19.4)
Four Years (annualized)	8.4	7.1	1.3

*Combined DEX Real Return Bond Index and the MSCI All Country World Index. Prior to July 1, 2009, the CPI plus 4 per cent.

forward looking statements

There is little consensus among financial market participants regarding the direction of the global economy. With government stimulus tapering off, the onus will be on the private sector to propel the economy towards further recovery. However, the timing and extent of the change in leadership from government stimulus to private sector is uncertain, given persistently high unemployment and restrained consumer spending. In addition, increases in interest rates, which are expected in late 2010 or early 2011, may further temper economic growth. In this scenario, modest equity market returns with prevailing volatility are expected. For the long-term investor, this environment may create good opportunities to acquire high quality assets at a reasonable price.

The Board will continue to diligently monitor performance and management of the Plan's investments throughout 2010.

risk management system

The Board accepts that in order to meet the return objectives of the Plan, the Board must take on risk in the assets in which it invests. The Board invests in a diverse set of asset types to help improve the likelihood of achieving its desired results for a given level of risk.

Investment risk management is a central thesis for our investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.

proxy voting

The Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long-term value of investments. We entrust the proxy voting function to AIMCo, our primary service provider. Research and proxy voting have been outsourced to Glass Lewis, independent advisers that specialize in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations. Services of Glass Lewis cover 15,000 companies in 70 countries.

AIMCo believes that good governance enhances long-term shareholder value and demonstrates that belief as a member of the Canadian Coalition for Good Governance. Membership assists in the monitoring of dissenting opinions from within the organization and peers thereby leading to enriched decisions.

financial statements

photo courtesy of Edmonton Police Service

management's responsibility for financial reporting

The SFPP financial statements and financial information in the 2009 Annual Report are the responsibility of the Minister of Finance and Enterprise. Certain of these responsibilities are undertaken on behalf of the Minister of Finance and Enterprise by:

- Alberta Investment Management Corporation (AIMCo), which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board; and

- Alberta Pensions Services Corporation (APS), which is responsible for administration of the Plan under an *Administrative Services Agreement* with the Minister of Finance and Enterprise. This responsibility also includes compilation of the Plan's annual report.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by APS and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance and Enterprise in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2009 annual report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance and Enterprise, APS and AIMCo each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of the entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Tim Wiles

Tim Wiles
Deputy Minister of Finance and Enterprise

May 7, 2010

auditor's report

AUDITOR GENERAL *Alberta*

To the Minister of Finance and Enterprise and the Special Forces Pension Board

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Special Forces Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended in accordance with Canadian generally accepted accounting principles.

Merwan N. Saher, CA

Auditor General

Edmonton, Alberta
May 7, 2010

special forces pension plan

statements of net assets available for benefits and liability for accrued benefits
as at december 31

	($ thousands)	
	2009	**2008**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 1,344,316	$ 1,199,702
Contributions receivable (Note 6)	3,597	3,306
Accrued investment income and accounts receivable	190	27
	1,348,103	1,203,035
Liabilities		
Accounts payable	47	31
Liability for investment purchases	375	-
	422	31
Net assets available for benefits	1,347,681	1,203,004
Liability for Accrued benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	1,700,948	1,618,104
Indexing Fund	21,660	14,866
	1,722,608	1,632,970
Deficiency at end of year		
Plan Fund (Note 8)*	(374,927)	(429,966)

* The Plan Fund deficiency is comprised of a pre-1992 deficiency of $210,267 (2008: $243,888) and a post-1991 deficiency of $164,660 (2008: $186,078).

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statements of changes in net assets available for benefits
years ended december 31

	($ thousands)			
		2009		**2008**
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Net investment (loss) income (Note 9)				
Investment income (loss)	162,565	2,421	164,986	(255,605)
Investment expenses	(4,793)	-	(4,793)	(4,133)
	157,772	2,421	160,193	(259,738)
Contributions (Note 10)	61,871	4,373	66,244	61,963
	219,643	6,794	226,437	(197,775)
Decrease in assets				
Pension benefits	76,762	-	76,762	72,490
Refunds and transfers	3,800	-	3,800	4,247
Member service expenses (Note 11)	1,198	-	1,198	1,020
	81,760	-	81,760	77,757
Increase (decrease) in net assets	137,883	6,794	144,677	(275,532)
Net assets available for benefits at beginning of year	1,188,138	14,866	1,203,004	1,478,536
Net assets available for benefits at end of year	**$ 1,326,021**	**$ 21,660**	**$ 1,347,681**	**$ 1,203,004**

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statements of changes in liability for accrued benefits
years ended december 31

	($ thousands)			
		2009		2008
	Pre-1992	Post-1991	Total	Total
Increase in liability for accrued benefits				
Interest accrued on opening liability for accrued benefits	51,868	56,717	108,585	97,907
Benefits earned	-	52,423	52,423	45,136
Net increase (decrease) due to actuarial assumptions changes	(34,514)	(62,301)	(96,815)	1,847
Net experience losses (Note 7b)	33,813	67,669	101,482	-
Cost-of-living indexing adjustments and interest	-	6,794	6,794	7,629
	51,167	121,302	172,469	152,519
Decrease in liability for accrued benefits				
Benefits, transfers and interest	65,172	17,659	82,831	76,736
	65,172	17,659	82,831	76,736
Net increase (decrease) in liability for accrued benefits	(14,005)	103,643	89,638	75,783
Liability for accrued benefits at beginning of year	797,963	835,007	1,632,970	1,557,187
Liability for accrued benefits at end of year (Note 7)	**$ 783,958**	**$ 938,650**	**$ 1,722,608**	**$ 1,632,970**

The accompanying notes and schedules are part of these financial statements.

special forces pension plan

statements of changes in deficiency
years ended december 31

	($ thousands)			
		2009		2008
	Pre-1992	Post-1991	Total	Total
Deficiency at beginning of year	(243,888)	(186,078)	(429,966)	(78,651)
Increase (decrease) in net assets available for benefits	19,616	125,061	144,677	(275,532)
Net (decrease) increase in liability for accrued benefits	14,005	(103,643)	(89,638)	(75,783)
Deficiency at end of year (Note 15)	**$ (210,267)**	**$ (164,660)**	**$ (374,927)**	**$ (429,966)**

The accompanying notes and schedules are part of these financial statements.

notes to the financial statements
year ended december 31, 2009
(All dollar amounts in thousands, except per member data and remuneration of board members)

note 1 — summary description of the plan

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended.

(a) General
The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and accordingly Alberta Finance and Enterprise is management of the Plan. The Plan is governed by the Board.

(b) Plan Funding
Plan Fund
Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. Employees and employers are responsible for fully funding service after 1991.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2009 were 1.25 per cent of pensionable salary for the Province of Alberta, and 0.75 per cent each for employers and employees.

The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2008. The current service contribution rates for employers are 1.1 per cent higher than the rates of employees. The contribution rates in effect at December 31, 2009 for current service and post-1991 actuarial deficiency were unchanged from December 31, 2006 at 9.61 per cent of pensionable salary for employers and 8.51 per cent for employees. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and COLA payments to the Plan are 11.11 per cent of pensionable salary for employers and 10.01 per cent for employees and 1.25 per cent for the Province of Alberta.

As a result of the Board's review of the December 31, 2008 actuarial valuation, contribution rates will increase effective July 1, 2010 as follows: 11.95 per cent for current service and the post-1991 actuarial deficiency for employees and 13.05 per cent for employers. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and COLA payments to the Plan are 13.45 per cent for employees and 14.55 per cent for employers. The Province of Alberta contributes 1.25 per cent towards the pre-1992 unfunded liability.

Indexing Fund
Benefit payment increases for post-1991 COLA (see Note 1(i)) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2009 were 0.75 per cent of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991. To date, contributions and surplus have enabled the Indexing Fund to provide 60 per cent COLA for service from 1992 to 2000.

note 1 — summary description of the plan (continued)

(c) Retirement Benefits

The Plan provides for a lifetime pension of 1.4 per cent for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the *Income Tax Act*. An additional temporary bridge benefit of 0.6 per cent for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the Plan is 35 years.

For a member who has a pension partner at retirement, the normal form of pension is a Joint and Last Survivor, guaranteed for a five-year period, with 65 per cent continuing to the pension partner if he or she survives the member. For a member who does not have a pension partner at retirement, the normal form is a single life pension guaranteed for a five-year period.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

(e) Death Benefits

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

(f) Termination Benefits, Refunds and Transfers

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

(g) Guarantee

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

(h) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1 by an amount equal to 60 per cent of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31 in the previous year. For post-1991 service, the Board is responsible for setting cost-of-living adjustments based on funds available in the Indexing Fund (see Note 12). As of December 31, 2008, COLA has been granted to December 31, 2000.

note 2 — summary of significant accounting policies and reporting practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds, which are held directly by the Plan, plan investments are held in pooled investment funds established and administered by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Investments

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments, absolute return strategies and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The methods used by AIMCo to determine fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and income investments are estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of private real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization and the discounted cash flows.

v) The fair value of timberland investments is appraised annually by independent third party valuators.

(c) Income Recognition

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value

of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

(f) Valuation of Liability for Accrued Benefits

The value of liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and then extrapolated, on an annual basis, to year end. It uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's liability for accrued benefits; and

ii) the estimated fair values of the Plan's private investments, absolute return strategies, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short-term could require a material change in the recognized amounts.

note 2 — summary of significant accounting policies and reporting practices (continued)

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

note 3 — investments (schedules A to D)

	($ thousands)	%	($ thousands)	%
	2009		**2008**	
	Fair Value		**Fair Value**	
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	14,307	1.1	10,539	0.9
Universe Fixed Income Pool (b)	105,422	7.8	117,420	9.8
Canadian Long-Term Government Bond Pool (b)	185,926	13.8	190,652	15.8
Private Mortgage Pool (c)	57,075	4.3	58,618	4.9
Currency Alpha Pool (e)	2,211	0.2	3,251	0.3
Fixed Income Overlay Strategy Pool (f)	(3,418)	(0.3)	(29,887)	(2.5)
Tactical Asset Allocation Pool	1,692	0.1	878	0.1
	363,215	27.0	351,481	29.3
Real Rate of Return Bonds (d)	73,460	5.5	27,880	2.3
	436,675	32.5	379,361	31.6
Canadian Equities (Schedule B)				
Canadian Equity Master Pool (g)	249,374	18.6	-	-
Canadian Equities Transition Account (h)	8,296	0.6	-	-
Canadian Equity Overlay Strategy Pool (f)	-	-	11,751	1.0
Other Canadian Equity Pools	-	-	181,686	15.1
	257,670	19.2	193,437	16.1
Global Equities (Schedule C)				
Global Equity Master Pool (i)	426,964	31.8	-	-
Portable Alpha U.S. Pool (j)	35,473	2.6	45,065	3.7
Global Equity Overlay Strategy Pool (f)	3,903	0.3	26,289	2.2
Emerging Markets Equity Pool (k)	33,528	2.5	5,469	0.5
Structured Transition Pool	-	-	745	0.1
Other Global Equity Pools	-	-	370,842	30.9
	499,868	37.2	448,410	37.4
Private Real Estate Pool (Schedule D) (l)	73,115	5.4	113,600	9.5
Private Income Pools (m)	44,220	3.3	35,654	3.0
Timberland Pools (n)	8,131	0.6	7,627	0.6
Global Private Equities (o)	24,637	1.8	21,613	1.8
Total Investments	$ 1,344,316	100.00	1,199,702	100.00

note 3 — investments (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Universe Fixed Income Pool (UFIP) and the Canadian Long Term Government Bond Pool (CLGB) are managed with the objectives of providing competitive returns comparable to the total returns of the DEX Universe Bond Index and the DEX Long Term All Government Bond Index respectively over a four-year period while maintaining adequate security and liquidity of participants' capital. The UFIP portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives while the CLGB portfolio invests only in high quality fixed income instruments of the federal, provincial and municipal governments of Canada. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long-term. The portfolio is comprised primarily of high-quality commercial mortgage loans, provincial bond residuals and specialty mortgages. The pool invests primarily in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

(f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, Europe, Australasia and the Far East (EAFE) equities, major foreign currencies and styles and sectors. At December 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5 per cent to 10 per cent of the Pool's notional exposure through futures and swap contracts.

(g) On July 31, 2009, the Plan consolidated its holdings in various Canadian public equity pools and invested in the newly created Canadian Equities Master Pool (CEMP). CEMP owns all the units of the following pools:

	Per Cent of CEMP	
	2009	2008
Canadian Equities Index Pool	40.3	-
Canadian Quantitive Strategies Pool	32.1	-
Canadian External Managers Pools	27.6	-
	100.00	-

CEMP provides participants with the opportunity to gain broad investment exposure to Canadian public equity markets by investing in directly held public equities and structured equity products.

CEMP has a performance objective to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool gains exposure to the Canadian public equity market through a structured investment implementation and a quantitative minimum variance implementation, and uses an overlay strategy to manage the overall risk exposure. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the Pool.

note 3 — investments (continued)

FRNP is managed with the objective of generating float rate income needed for the swap obligations in respect of structured investments in Canadian equities. Through the use of interest rate swaps FRNP provides investment opportunities in floating rate instruments with remaining term-to-maturities of five years or less.

(h) The Canadian Equities Transition Account holds cash and one Canadian equity investment in the financial sector.

(i) On July 31, 2009, the Plan consolidated its holdings in various U.S. and Non-North American public equity pools and invested in the newly created Global Equities Master Pool (GEMP). GEMP owns all the units in the following pools:

	Per Cent of GEMP	
	2009	2008
Global External Managers Pool	43.0	-
Global Equities Index Pool	35.8	-
North American Concentrated Equity Pool	18.7	-
Global Equities Overlay Pool	1.8	-
EAFE Quantitative Equity Strategies	0.7	-
	100.00	-

GEMP provides participants with the opportunity to gain broad investment exposure to global public equity markets by investing in directly held public equities, structured equity products and concentrated equities.

GEMP has a performance objective to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) World Total Return Index over a four-year moving average period. The Pool gains exposure to global equity markets in developed countries through a structured investment implementation and uses an overlay strategy to manage the overall risk strategy. The Pool's North American concentrated equity strategy holds larger positions in mid-size Canadian and American companies ranging from 5 per cent to 20 per cent of outstanding common shares. The Pool's investment in units of FRNP is used as the underlying securities to support the index swaps of the Pool.

(j) The Portable Alpha U.S. Pool provides exposure to the global equity market by replicating the MSCI World Total Return Index with MSCI World Total Return index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. At December 31, 2009 the performance objective is to provide returns higher than the total return of the MSCI World Total Return Index over a four-year period.

(k) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital Index (MSCI) and Emerging Markets Free Net (EMF) Index over a four-year period.

(l) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long-term. Real estate is held through intermediary companies, which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, property type and tenancy. The Pool is intended to provide diversification from the securities market.

(m) Private Income Pools are managed with the objective of providing investment return comparable to the combined DEX Real Return Bond Index and MSCI World Index at December 31, 2009. The Pool invests in infrastructure related projects that are structured to provide high current income.

note 3 — investments (continued)

(n) The Timberland Pool provides high current income and long investment horizons. The timberland investment is primarily a partnership interest in forestry land in British Columbia, Canada. At December 31, 2009 the performance objective is to earn a return higher than the combined DEX Real Return Bond Index and MSCI World Index at December 31, 2009.

(o) The Global Private Equity Pool is managed with the objectives of providing investment returns comparable to the combined MSCI World Index and Consumer Price Index plus 8 per cent at December 31, 2009. The Foreign Private Equity Pool invests in institutionally sponsored international private equity pools managed by experienced advisors with proven records.

note 4 — investment risk management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term benchmark policy asset mix for investments:

Foreign equities	37.0%
Fixed income securities	27.0%
Canadian equities	18.0%
Real estate	7.0%
Real return bonds	5.0%
Private income	3.5%
Private equities	2.0%
Timberland	0.5%

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

note 5 — derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a

note 5 — derivative contracts (continued)

notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified time period.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009:

	2009			($ thousands)		2008 ($ thousands)	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%						
Equity index swap contracts	99	1	-	263,216	5,202	295,033	3,478
Forward foreign exchange contracts	100	-	-	214,897	2,420	113,003	(2,993)
Futures contracts	100	-	-	146,898	9,799	58,345	8,202
Credit default swap contracts	31	38	31	92,802	(658)	175,941	(4,001)
Swap option contracts	100	-	-	65,126	(476)	-	-
Interest rate swap contracts	23	66	11	61,739	(2,436)	88,030	(4,380)
Cross-currency interest rate swaps	52	30	18	41,332	754	69,902	(2,211)
Bond index swap contracts	100	-	-	3,878	(35)	7,994	210
				$ 889,888	$ 14,570	$ 808,248	$ (1,695)

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

note 6 — contributions receivable

	($ thousands)	
	2009	**2008**
Contributions receivable		
Employers	1,617	1,529
Employees	1,481	1,399
Province of Alberta	499	378
	3,597	3,306

note 7 — liability for accrued benefits

(a) Actuarial Valuation and Extrapolation Assumptions

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Mercer (Canada) Limited and was then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $1,722,608 (2008: $1,632,970) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate.

The major assumptions used for accounting purposes were:

	2009	**2008**
	%	
Investment return	6.90	6.50
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions .

(b) Net Experience Losses

Net experience losses of $101,482 (2008: $nil) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 extrapolation for reporting compared to actual results.

(c) Sensitivity of Changes in Major Assumptions

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

note 7 — liability for accrued benefits (continued)

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2009:

	% Changes in Assumptions	($ thousands) Increase in Plan Deficiency	Increase in Current Service Cost as a % of Pensionable Earnings*
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	86,000	0.0**
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	32,000	1.5
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	227,000	3.4

* The current service cost as a per cent of pensionable earnings as determined by the December 31, 2008 valuation was 17.27 per cent.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

note 8 — plan fund deficiency

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the unfunded liability with respect to service that was recognized as pensionable as at December 31, 1991.

The following table summarizes the fair value of net assets, liability for accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2009:

	($ thousands)			
	2009			2008
	Pre-1992	Post-1991	Total	Total
Plan Fund net assets available for benefits	$ 573,691	$ 752,330	$ 1,326,021	$ 1,188,138
Plan Fund accrued benefits	783,958	916,990	1,700,948	1,618,104
Plan Fund deficiency (Note 14)	$ (210,267)	$ (164,660)	$ (374,927)	$ (429,966)

As at December 31, 2009 the Indexing Fund held investments of $21,660 (2008: $14,866) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is $nil (2008: $nil).

This Plan Fund deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes.

note 9 — net investment income (loss)

(a) Investment Income (Loss)

Net investment income (loss) is comprised of the following:

	($ thousands)	
	2009	**2008**
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	120,919	(310,073)
Interest income	25,048	33,149
Dividend income	14,520	14,902
Real estate income	4,037	5,258
Securities lending income	462	1,159
	164,986	(255,605)
Investment expenses	(4,793)	(4,133)
Net investment income (loss)	**$ 160,193**	**$ 259,738**

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	($ thousands)	
	2009	**2008**
Global equities	71,946	(172,183)
Canadian equities	69,034	(93,493)
Fixed income securities	26,633	53
Private income	617	3,049
Timberland	(431)	(1,145)
Private equities	(1,850)	(1,905)
Private real estate	(5,756)	5,886
Net investment income (loss)	**$ 160,193**	**$ (259,738)**

The following is a summary of the investment performance results attained by the Plan:

	2009	2008	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Sixteen-Year Compound Annualized Return
Time-weighted rates of return*					
Actual gain (loss)	13.3%	(17.7%)	2.2%	4.5%	6.8%
Policy Benchmark gain (loss)**	13.5%	(14.3%)	2.8%	4.5%	6.9%
Value added (lost) from investment manager	(0.2%)	(3.4%)	(0.6%)	0.00%	(0.1%)

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(b) Investment Expenses

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/ incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of net assets and per member are provided below:

	($ thousands)	
	2009	**2008**
Total investment expenses	4,793	4,133
Investment expenses as a percentage of net assets	0.36%	0.34%
Investment expenses per member	**$ 797**	**$ 730**

note 10 — contributions

	($ thousands)	
	2009	**2008**
Current and optional service		
Employers	28,956	26,942
Employees	26,250	24,578
Unfunded liability		
Employers	3,528	3,323
Employees	3,528	3,323
Province of Alberta	3,644	3,433
Transfers from other plans (net)	338	364
	$ 66,244	**$ 61,963**

note 11 — member service expenses

	($ thousands)	
	2009	**2008**
General administration costs	1,136	950
Actuarial fees	62	70
	$ 1,198	**$ 1,020**
Member service expense per member	199	180

General administration costs including Plan Board costs were paid to APS on a cost-recovery basis.

The Plan's share of APS operating and plan-specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

note 12 — total plan expenses

Total plan expenses of investment expenses per Note 9(b) and member service expenses per Note 11 are $5,991 (2008: $5,153) or $996 (2008: $910) per member and 0.44 per cent (2008: 0.43 per cent) of net assets under administration.

note 13 — remuneration of board members

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009:		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2009	2008
During 2009, the following amounts were paid:		
Remuneration		
Chair	$ 7,634	$ 5,826
Members	33,386	27,240
Travel expenses		
Chair	5,727	886
Members	28,719	37,627

note 14 — transfer from the indexing fund to the plan fund

Transfer from the Indexing Fund to the Plan Fund is approved by the Board based on the Plan actuary's advice to finance the payment of cost-of-living increases for post-1991 service by the Plan Fund (see Note 1(i)).

As at December 31, 2009, Cost-of-Living increases for post-1991 service from January 1, 1992 to December 31, 2000 have been granted at 60 per cent of the increase in the Alberta Consumer Price Index.

note 15 — funding of actuarial deficiency

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $1,371,637 at December 31, 2009 (2008: $1,321,800).

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 1.86 per cent of pensionable salary shared equally between employees and employers until December 31, 2009. The special payment is included in the rates in effect at December 31, 2009 (see Note 1(b)).

note 16 — comparative figures

Comparative figures have been reclassified to be consistent with 2009 presentation.

note 17 — responsibility for financial statements

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by APS, AIMCo, the Plan's actuary, and after consultation with the Board.

special forces pension plan

schedule of effective net investments in fixed income securities

	($ thousands)	
	Plan's Share	
	2009	2008
Deposits and short-term securities	16,748	23,093
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	99,061	40,076
Provincial		
Alberta, direct and guaranteed	16	32
Other Provincial, direct and guaranteed	141,951	138,159
Municipal	4,698	4,431
Corporate	171,523	173,609
	417,249	356,307
Receivable from sale of investments and accrued investment income	4,623	3,631
Accounts payable and accrued liabilities	(1,945)	(3,670)
	2,678	(39)
	$ 436,675	**$ 379,361**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in deposits and fixed income securities is reduced by the notional amount of derivative contracts totalling $3,418 (2008: $33,099).

(b) Fixed income securities held as at December 31, 2009 had an average effective market yield of 5 per cent per annum (2008: 5.6 per cent per annum). The following term structure of these securities as at December 31, 2009 is based on principal amount:

	2009	2008
	%	
Under 1 year	1	2
1 to 5 years	15	17
6 to 10 years	19	14
11 to 20 years	22	14
Over 20 years	43	53
	100	**100**

special forces pension plan

schedule of effective net investments in canadian equities

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	3,702	4,818
Public equities (a) (b)		
Consumer discretionary	16,658	12,130
Consumer staples	12,001	6,484
Energy	59,401	49,112
Financials	73,763	50,125
Health care	2,354	1,264
Industrials	18,700	14,616
Information technology	8,217	6,485
Materials	41,333	29,682
Telecommunication services	13,297	10,701
Utilities	6,361	2,922
	252,085	183,521
Pooled investment funds	-	5,595
Receivable from sale of investments and accrued investment income	3,864	4,309
Accounts payable and accrued liabilities	(1,981)	(4,806)
	1,883	(497)
	$ 257,670	**$ 193,437**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swaps and futures contracts totalling $82,095 (2008: $71,188).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's Toronto Stock Exchange Composite Index.

special forces pension plan

schedule of effective net investments in global equities

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	6,172	8,755
Public equities by industry sector (a) (b)		
Consumer discretionary	49,024	39,101
Consumer staples	47,534	49,992
Energy	46,966	47,653
Financials	98,004	74,111
Health care	42,114	56,359
Industrials	68,780	50,030
Information technology	52,589	46,738
Materials	26,040	21,583
Telecommunication services	20,256	29,419
Utilities	16,293	21,508
	467,600	436,494
Pooled investment funds	-	2,900
U.S. Hedge Funds	26,936	-
	494,536	439,394
Receivable from sale of investments and accrued investment income	3,032	4,807
Accounts payable and accrued liabilities	(3,872)	(4,546)
	(840)	261
	$ 499,868	**$ 448,410**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in global public equities includes the notional amount of global equity index swap and futures contracts totalling $184,612 (2008: $232,459).

special forces pension plan

schedule of effective net investments in global equities

(b) The sector classification conforms to the Global Industry Classification Standard followed by the MSCI World Total Return Index. Global investments by geographic region are as follows:

	($ thousands)	
	Plan's Share	
	2009	**2008**
United States	228,456	217,453
Europe, Australasia and the Far East	208,249	216,472
Emerging markets	36,969	5,469
Canada	20,862	-
	$ 494,536	**$ 439,394**

special forces pension plan

schedule of effective investments in real estate

	($ thousands)	
	Plan's Share	
	2009	**2008**
Deposits and short-term securities	1,900	$ 249
Real estate (a)		
Office	31,678	51,127
Retail	22,906	32,883
Industrial	9,281	17,796
Residential	4,200	6,913
	68,065	108,719
Pooled investment funds	2,751	3,854
Accrued income and accounts receivable	399	778
	$ 73,115	**$ 113,600**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	($ thousands)	
	Plan's Share	
	2009	**2008**
Ontario	35,377	55,739
Alberta	25,519	41,194
Quebec	5,728	9,435
British Columbia	1,441	2,351
	$ 68,065	**$ 108,719**

10-year plan summary (unaudited)

For the year ended december 31, 2009

($ thousands)	2009	2008	2007	2006*	2005	2004	2003	2002	2001	2000
Change in net assets										
Income										
Investment income (loss)	160,193	(259,738)	28,369	187,947	139,929	100,599	121,981	(58,936)	(25,851)	73,808
Contributions										
Employers	28,956	26,942	24,063	22,760	22,214	19,594	18,387	16,033	15,625	14,064
Employees	26,250	24,578	21,956	20,884	20,557	18,089	17,051	14,934	14,292	12,900
Unfunded liability										
Employers	3,528	3,323	2,880	2,775	2,721	2,392	2,226	1,324	1,279	1,165
Employees	3,528	3,323	2,880	2,775	2,721	2,392	2,226	1,324	1,279	1,165
Transfers from Alberta	3,644	3,433	2,975	2,866	2,788	2,471	2,300	2,206	2,132	1,924
Transfers from other plans	338	364	341	381	450	621	19	60	175	92
Total Income	**226,437**	**(197,775)**	**83,464**	**240,388**	**191,380**	**146,158**	**164,190**	**(23,055)**	**8,931**	**105,118**
Expenditures										
Benefits paid	76,762	72,490	65,724	58,744	53,370	49,201	45,509	42,883	38,865	36,427
Refunds and transfers	3,800	4,247	5,530	4,364	2,299	811	486	668	631	658
Administration expenses	1,198	1,020	934	1,010	1,373	1,326	1,196	1,017	797	658
Total expenditures	**81,760**	**77,757**	**72,188**	**64,118**	**57,042**	**51,338**	**47,191**	**44,568**	**40,293**	**37,743**
Increase (decrease) in net assets	**144,677**	**(275,532)**	**11,276**	**176,270**	**134,338**	**94,820**	**116,999**	**(67,623)**	**(31,362)**	**67,375**
Net Assets										
Investments										
Deposits	14,307	10,539	8,415	8,241	5,390	8,803	6,713	6,110	12,179	15,985
Fixed income securities	422,368	368,822	515,368	481,829	437,091	405,724	362,113	341,206	355,145	370,300
Equities										
Canadian	257,670	193,437	266,909	245,075	253,309	237,335	224,597	190,577	268,503	288,511
Non-North American	499,868	228,385	270,761	295,561	255,725	231,926	216,239	181,796	159,687	163,152
Real Estate	73,115	113,600	111,891	102,799	85,713	55,793	52,613	50,202	49,755	44,535
Private Income Pool	44,220	35,654	23,681	16,024	6,846	3,875	493	—	—	—
Timberland Pool	8,131	7,627	7,602	5,339	5,536	—	—	—	—	—
Global Private Equities	24,637	21,613	8,417	—	—	—	—	—	—	—
Total Investments	**1,344,316**	**1,199,702**	**1,475,924**	**1,464,816**	**1,288,233**	**1,154,290**	**1,059,607**	**942,850**	**1,010,672**	**1,042,371**
Contributions and other receivables	3,787	3,374	2,801	2,953	2,782	2,379	2,400	2,051	1,792	1,512
Liabilities	(422)	(72)	(189)	(509)	(25)	(17)	(175)	(68)	(8)	(65)
Net Assets available for benefits	1,347,681	1,203,004	1,478,536	1,467,260	1,290,990	1,156,652	1,061,832	944,833	1,012,456	1,043,818
Actuarial value of accrued benefits	1,722,608	1,632,970	1,557,187	1,433,986	1,358,333	1,365,005	1,289,059	1,210,678	1,106,172	1,041,763
Surplus (Deficiency)	**(374,927)**	**(429,966)**	**(78,651)**	**33,274**	**(67,343)**	**(208,353)**	**(227,227)**	**(265,845)**	**(93,716)**	**2,055**
Funded Ratio (%)	78	74	95	102	95	85	82	78	92	100

continued on the next page.

10-year plan summary (continued) (unaudited)

For the year ended december 31, 2009

($ thousands)	2009	2008	2007	2006*	2005	2004	2003	2002	2001	2000
Performance (%)										
Long-term goal	6.50	6.50	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Rate of return — nominal	13.30	(17.80)	1.90	14.60	12.10	9.50	13.00	(5.90)	(2.60)	7.40
Benchmark	13.50	(14.20)	1.10	13.80	10.60	9.40	12.50	(6.90)	(3.40)	6.10
Consumer Price Index (Canada)	0.96	2.00	2.40	1.60	2.20	2.10	2.00	3.90	0.70	3.20
Real rate of return	12.34	(19.80)	(0.50)	13.00	9.90	7.40	11.00	(9.80)	(3.30)	4.20
Interest Rates (%)										
Bank of Canada	0.25	1.75	4.25	4.25	3.25	2.75	3.00	3.00	2.50	6.00
US Federal Reserve	0.25	0.50	4.25	5.25	4.25	2.25	1.00	0.75	1.25	6.50
Market Indices (%)										
S&P/TSX ($Cdn)	35.10	(33.00)	9.83	17.26	24.13	14.48	26.75	(12.45)	(12.57)	7.41
S&P 1500 ($Cdn)*	8.80	(21.60)	(10.57)	15.28	1.63	3.26	5.29	(22.89)	(6.35)	(5.79)
MSCI EAFE ($Cdn)	12.60	(29.80)	(5.74)	26.28	9.98	11.98	13.39	(16.82)	(16.50)	(11.19)
DEX Universe Bond Index**	5.40	6.40	3.68	4.06	6.46	7.10	6.69	8.73	8.08	10.25
Participants										
Active Members	3,979	3,693	3,427	3,389	3,347	3,195	3,064	3,080	2,856	2,729
Deferred Members	130	106	111	92	75	60	56	57	35	42
Pensioners	2,078	2,037	1,949	1,805	1,647	1,545	1,459	1,365	1,287	1,207
Total	**6,187**	**5,836**	**5,487**	**5,286**	**5,069**	**4,800**	**4,579**	**4,502**	**4,178**	**3,978**
Average age of active members (years)***	38.3	38.1	38.4	38.6	38.8	39.0	39.1	39.0	38.7	38.4
Average age of pensioners (years)***	62.4	61.8	61.3	61.2	61.2	61.0	60.6	60.3	60.1	59.7
Average annual pension amount	36,756	36,132	34,920	33,588	33,132	31,101	31,101	31,309	31,309	30,548
Current Contribution Rates (%)										
Employees	8.51	8.51	8.51	8.51	8.51	8.51	8.51	7.20	7.20	7.20
Employers	9.61	9.61	9.61	9.61	9.61	9.61	9.61	8.30	8.30	8.30
Unfunded liability — Pre 1992										
Province of Alberta	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Employer and Employee	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Indexing — Employer and Employee	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Annual COLA pension adjustment****	0.06	2.94	2.16	1.20	0.78	3.42	1.02	1.98	1.98	1.32

* Until 2005, the index used was the S&P 500.

** Scotia Capital Fixed Income Indices changed their name to DEX Fixed Income Indices effective October 22, 2007.

*** Values were updated in 2009 to be consistent with APS reporting.

**** As of January 1, 2006, all service years to the end of 2000 receive COLA.

2010 directory

employee nominees
Denis Jubinville, Edmonton Police Association
Ronald Ternes, Calgary Police Association
Dwayne Smith (Vice-chair), Lethbridge Regional Police Association

employer nominees
Roger Rosychuk (Chair), City of Edmonton
David Watson, City of Calgary
Vacant

crown nominee
Aaron Brown,CFA

plan board manager
Liz Doughty, Alberta Pensions Services Corporation (APS)

plan administrator
Alberta Pensions Services Corporation (APS)

fund management
Alberta Investment Management Corporation (AIMCo)

investment consultant
Mercer (Canada) Ltd.

actuary
Mercer (Canada) Ltd.

auditor
Auditor General of Alberta

contact information

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Website: www.sfpp.ca

SFPP employers

Seven employers participate in SFPP. They are the Police Services of:

The City of Calgary

The City of Camrose

The City of Edmonton

The Town of Lacombe

The City of Lethbridge

The City of Medicine Hat

The Town of Taber